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DE RUEHVJ #1165/01 2791642
ZNR UUUUU ZZH
O 061642Z OCT 09
FM AMEMBASSY SARAJEVO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0861
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RHEHNSC/NSC WASHDC

UNCLAS SARAJEVO 001165

SENSITIVE
SIPDIS

STATE FOR DEPUTY SECRETARY STEINBERG, EUR DAS JONES AND
EUR/SCE

E.O. 12958: N/A
TAGS: [PGOV](#) [PREL](#) [BK](#)
SUBJECT: BOSNIA: SCENESETTER FOR DEPUTY SECRETARY
STEINBERG'S OCTOBER 8-9 VISIT TO SARAJEVO

Summary

1. (SBU) Although your August 8-9 visit with Swedish Foreign Minister/EU President Bildt offers a much-needed prospect for political change, you are visiting Sarajevo when tensions are higher than at any time since the failure of the April Package of constitutional reforms in 2006. Bosnian Serb leader Milorad Dodik has escalated his combative rhetoric and openly challenged the international community by threatening that the High Representative's Bonn-Powers impositions will not be respected in Republika Srpska (RS). Sulejman Tihic, President of the largely-Bosniak Party of Democratic Action (SDA) has hardened his positions recently, refusing to meet with Dodik and musing frequently on the possibility of violence and conflict in Bosnia if the Office of the High Representative closes prematurely. Dragan Covic, the most influential Croat political leader, has been feuding with his erstwhile ally Tihic and enjoying warmer relations with Dodik, based in part on a common fear of prosecution. In this poisoned political environment, one already distracted by the early beginnings of the campaign for national elections in October 2010, achieving workable compromises will be extremely difficult. The local consequences of the global financial crisis are further complicating the political scene, sparking mass protests over IMF-required cutbacks in benefits for sensitive groups such as war veterans; in this environment, the soccer-brawl killing of a Sarajevo Bosniak -- apparently the victim of a Bosnian Croat -- takes on ominous political overtones. End summary.

Conflicting Visions

2. (SBU) The fundamental problem in Bosnia remains that the state lacks legitimacy among all three ethnic groups, and Bosniaks, Serbs, and Croats differ in their visions about the kind of Bosnia in which they want to live.

-- Bosniaks, who make up close to 50 percent of the country's population, want a strong, centralized state with governing structures that include minimal ethnic checks and balances. They support the creation of regions within the country, but some seek to abolish the Republika Srpska (RS), which many Bosniaks consider a product of the genocide and ethnic cleansing during the 1992-1995 war. Recognizing USG support for a two-entity state, the Bosniaks will focus more practical effort on removing the Dayton provision for vetos of national legislation at the entity level, a mechanism significantly overused by the Bosnian Serbs.

-- Serbs, after years of attacking Dayton, have now embraced

it. They want to maintain Dayton's entity-based structures and weak state. They interpret the language of Dayton strictly, although over the last several years have sought to roll back reforms designed to make Dayton work and advance Bosnia's Euro-Atlantic aspirations, arguing that such reforms were not explicitly provided for in Dayton. Many Serbs would prefer the dissolution of Bosnia in favor of the independence of the RS. Even the most enlightened Bosnian Serbs will be looking for guarantees that the RS's status will remain unchanged.

-- Croats aspire to their own entity. They feel that their interests have not been protected in the structures of the Federation, and many Croat politicians embrace as a long-term goal the principle of territorial discontinuity in order to ensure all Croat majority municipalities are part of a Croat-majority entity. In a discussion on political reform with the U.S. and EU, they will look for certain positive gestures for the Croat community.

Dodik and the Serbs

13. (SBU) In the past few months divisions in the Bosnian political scene have hardened. Milorad Dodik, President of the Alliance of Independent Social Democrats (SNSD), has increased the tempo of his efforts to roll back reforms and undermine the state. His aim appears to be -- at a minimum -- to restore to the Republika Srpska (RS) the level of autonomy it enjoyed at the end of the 1992-95 war. He professes interest in EU and NATO integration, but insists that the integrity of the RS is more important than EU or NATO membership. Recently Dodik and members of his party

have begun to express greater ambivalence about NATO membership for BiH, saying that they might support a referendum on NATO membership in Republika Srpska (RS) because of "declining support" for NATO in the entity.

14. (SBU) Dodik and members of his party have also taken unilateral steps recently to break apart the state-level electricity transmission company, Transco - the establishment of which was considered a critical reform by the EU in advancing BiH toward its European Partnership Agreement and its Stabilization and Association Agreement with the EU. Since February 2008, when Dodik proposed dividing the company into three ethnically-based transmission companies, RS officials have refused to participate in Transco board discussions. In September, High Representative (HighRep) Valentin Inzko extended the mandate of the General Director of the company, which would otherwise have expired the following day and left the company in limbo. Inzko's action, along with other measures to prevent the breakup of Transco precipitated Dodik's current threats to have RS representatives withdraw from state-level institutions.

15. (SBU) Dodik has also recently cast doubts on the verdicts against Serbs convicted of war crimes against civilians in Sarajevo and Tuzla, perhaps in an effort to strengthen his support among hard core nationalists in the RS who he wants as allies in his confrontation with the international community. Dodik is particularly concerned about the possibility that the international community, in the person of HighRep Inzko, will extend the mandate of international judges and prosecutors working in Bosnia. Dodik claims that an allegedly huge corruption case against him being led by an international prosecutor is part of an international conspiracy, and has threatened to resist the HighRep if he uses his executive powers to extend the mandates of the judges and prosecutors.

16. (SBU) Support for Serb opposition parties such as Mladen Ivanic's Peoples Democratic Party (PDP) and Dragan Cavic's Democratic Party (DP) is dwarfed by the overwhelming support that Dodik still commands in the RS. Nonetheless, some observers argue that Dodik's popularity is slipping some, in part because RS voters may be concerned that the corruption and political turmoil that accompany Dodik's rule may be

interfering with the entity's economic development. The fact that Dodik has recently held high-profile meetings with Serb Democratic Party (SDS) leaders, and expressed openness toward some of their views such as a populist referendum on NATO exclusively in the RS (where NATO is vilified for attacking Serbs in the RS in 1995 and in Serbia in 1999), suggests that he has some concerns about protecting his political flanks against inroads from such parties as PDP and DP. Nonetheless, Ivanic and Cavic will likely be cautious about veering too far from Dodik's views when it comes to debating a package deal of constitutional reforms and changes to meet the needs of OHR closure. Although they may have private misgivings, they have publicly supported many of Dodik's initiatives.

Bosniaks

17. (SBU) After his party performed well in the October 2008 elections Sulejman Tihic, President of the largely Bosniak Party of Democratic Action (SDA), sought to gain the upper hand over his main Bosniak political rival, tri-Presidency member Haris Silajdzic, while moving Bosniak politics in a more moderate and constructive direction. One such effort at compromise, the Prud Process, began as a bold effort by Tihic to achieve compromises with Bosnian Serbs and Croats that would help build a more functional state. Tihic took a major political risk at Prud, and his Bosniak opponents -- notably Silajdzic and Social Democratic Party (SDP) President Zlatko Lagumdzija -- heavily criticized his efforts. Stung by the sharpness of those attacks, Tihic has backed off Prud and has shown less willingness to compromise. He has grown increasingly critical of what he views as the international community's tepid response to Dodik's destructive behavior, and frequently says that violence and conflict will be the likely consequence if the Office of the High Representative (OHR) is closed before Bosnia has made considerably greater strides toward having a functional central state.

18. (SBU) Tihic's rival, Haris Silajdzic, has seen his party (Party for BiH, SBiH) suffer from defections and an apparent

decline in public support over the past year. However, he continues to espouse "all or nothing" views on current issues such as constitutional reform, and he stands as a reminder to Tihic that efforts to compromise with the Serbs will be met with fierce opposition from Silajdzic's party, which will not hesitate to inflame Bosniak public opinion over issues. Zlatko Lagumdzija, as leader of the Social Democrats -- the largest opposition party -- continues to seek political capital from the failure and dysfunctionality of the current government. He has also staked out an aggressive position on constitutional reform, saying that he will only consider supporting a set of reforms that goes beyond the "April package" of 2006. Fahrudin Radoncic, the owner of the largest Sarajevo daily newspaper, is yet another complicating feature in Bosniak politics. Radoncic, who is just forming a political movement with populist Bosniak overtones, has many alleged criminal ties, and enjoys support from the highly politicized and nationalist Islamic religious establishment.

Croats

19. (SBU) The leading Croat politician, Dragan Covic, President of the Croation Democratic Union (HDZ-BiH), has seen his relationship with erstwhile ally in the Prud Process Sulejman Tihic deteriorate over the past nine months. The standoff has festered over the past year on such issues such as whether a Bosniak or a Croat should be mayor in the divided city of Mostar and Croat sentiments that Bosniaks are using their majority status in the Federation to unilaterally impose their will on such issues as the placement of a the main highway to the Adriatic coast. Meanwhile, Covic's relationship with RS PM Dodik has warmed, in part because both of them face corruption investigations and share a deep antipathy to the presence in Bosnia of international

prosecutors and judges. Covic formally continues to maintain the long-term goal of creating a third Croat-dominated entity. In practice, however, he is seeking increased institutional protection to prevent outvoting of Croats in the Federation and would like to see the government fund a Croat-language television station. Although Covic has generally been flexible in his dealings with the international community, his tense relationship with Tihic and improved relations with Dodik may make him a more difficult interlocutor on constitutional reform. He has no serious rival in the ethnic Croat political world, as the more nationalist HDZ-1990 led by Bozidar Ljubic has suffered an erosion in support over the past several years.

Resolving 5 2

¶10. (SBU) In the poisonous political environment of the past year, progress toward meeting the criteria for closing the Office of the High Representative (OHR) and transitioning to a European Special Representative (EUSR) have ground to a halt. The "Prud" agreement between Tihic, Dodik and Covic offered an initially promising means for satisfying the last remaining objectives required for transition -- the allocation of state property and defense property among the central state and lower levels of government. The agreement called for giving the central state ownership of what it needed and returning the remaining property to the entities, but it has been undermined by differing interpretations of what the agreement means. Tihic has insisted that all property must be initially registered in the name of the central state government (a condition he says was implicit in the Prud agreement). This demand has been categorically rejected by Dodik, in part because he fears that this would call into question the ownership status of millions of dollars worth of former state property that has been sold or given away by the entities and is already in commercial use.

¶11. (SBU) Upholding high standards for resolving the state and defense property objectives necessary to close OHR is important not only for maintaining the credibility of the international community, but also to help ensure that Bosnian leaders have at least the minimal required level of common political vision. If current political leaders of the three constituent peoples are unable to agree on a way to divide up state and defense property in a way that satisfies the needs of the entities, but also ensures a sustainable central state, then they clearly lack the minimal level of common ground necessary to work out their political problems over

the coming months and years. Until that political leadership changes, a robust international presence that, when necessary, can use its executive authority to steer the country, will clearly be necessary.

¶12. (SBU) To resolve the issue of state property, BiH requires a comprehensive property inventory and an intergovernmental agreement distributing the properties among the state, the two entities, and Brcko District. The major obstacles so far have been BiH's failure to initiate or even agree on rules for the inventory process, along with an ideological battle between Bosniak and Serb political parties that has turned the state property issue into a debate about the identity of the Bosnian state. Bosniak leaders, in particular Haris Silajdzic, insist that the Succession Agreement relating to the former Yugoslavia and the Dayton Peace Agreement mandate the state as the owner of all property of the former Yugoslavia government and of the former Socialist Republic of BiH. Dodik argues that Dayton created one state out of the entities, and that all property therefore belongs to the entities. After the failure of the Prud compromise, OHR unilaterally initiated a property inventory. Although the Federation is complying with OHR's document requests, RS land registries stopped cooperating on September 25. OHR officials recently were turned away when they visited two RS offices to request additional property records.

¶13. (SBU) The related problem of allocating defense property among the different levels of government has also defied a solution. If the issue of immovable defense property is to be resolved satisfactorily, the Ministry of Defense must obtain ownership of the bases and other property it requires to meet its needs. In resolving the issue of moveable defense property, the Bosnian Presidency must agree on a plan that destroys dangerous materials such as white phosphorous and dangerous stores of old ammunition. The plan must also set time deadlines for sale of weapons after which these weapons must be destroyed, so that BiH soldiers can in the future focus primarily on training for core military missions rather than on guarding weapons and ammunitions stores.

Constitutional Reform

¶14. (SBU) Although constitutional reform is not a requirement for transition from OHR to EUSR, clearly it is needed in order for Bosnia to become a more functional state and meet its EU and NATO commitments. Bosniak parties insist that substantial constitutional reform is required before the OHR can safely be closed. Without reforms that create a functional state, in their view, a dysfunctional Bosnia will descend into chaos and conflict. Bosniaks are unlikely to agree to a package deal on constitutional reform and OHR closure that does not offer at least a significant "down payment" of constitutional reforms aimed at increasing the functionality of the central state and a clear promise to follow this up with further reforms in the near future. Such reforms, in the view of Bosniaks like Tihic, would have to address the distribution of competencies among the central state and the entities and streamline decision-making of the central government. Silajdzic has insisted that constitutional reform must eliminate current "entity vote" blocking mechanisms.

¶15. (SBU) On the part of the Serbs, Dodik has insisted that entity voting cannot be tampered with and resists any further transfer of competencies to the central state (in fact, he has insisted that competencies should be transferred back to the entities). The Croats meanwhile, may insist that constitutional reform include additional checks and balances designed to protect Croat interests that would cut against the grain of efforts to streamline decision-making. To harmonize these conflicting views into a package deal that achieves support from all three constituent peoples will clearly require considerable negotiating cunning.

Economic Downturn and the IMF Program

¶16. (SBU) The current economic downturn is further complicating the Bosnian political crisis. Bosnia enjoyed healthy growth through 2008, averaging six percent per year between 2003 and 2008 with low inflation. This along with important financial sector reforms culminated in the signing

of the Stabilization and Association Agreement with the EU in June 2008. The boom came at a price, however, as the two entities -- particularly the Federation but also the RS -- overextended themselves with unsustainable social programs for decorated war veterans, war invalids, and war victims, without regard to actual need. When the global financial crisis struck, the economy deteriorated rapidly, and the government turned to the IMF. A \$1.6 billion IMF Stand-By Arrangement was signed in June 2009, to be disbursed in twelve quarterly tranches over three years and supported by a World Bank structural adjustment program. Among the key conditions of the IMF program were immediate cuts in the 2009 budget and legislative measures to change the veterans entitlement system to a more affordable needs-based system of social benefits. However, veterans' organizations have been key supporters of the ruling SDA party in the Federation, and have exerted steady pressure against the IMF-driven reforms. Although the first tranche of the program, worth over \$275 million, was disbursed in July, the Federations's ability to withstand the internal political pressure to stay on the

program is shaky.
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